

**frontier**

Michael J. Shortley, III  
Senior Attorney and Director  
Regulatory Services

180 South Clinton Avenue  
Rochester, NY 14646  
716-777-1028  
716-546-7823 fax  
716-777-6105

mshortle@frontiercorp.com

February 6, 1997

**BY OVERNIGHT MAIL**

**DOCKET FILE COPY ORIGINAL**

Mr. William F. Caton  
Office of the Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

**Re: IB Docket No. 96-261**

Dear Mr. Caton:

Enclosed for filing please find an original plus nine (9) copies of the Comments of Frontier Corporation in the above-docketed proceeding.

To acknowledge receipt, please affix an appropriate notation to the copy of this letter provided herewith for that purpose and return same to the undersigned in the enclosed, self-addressed envelope.

Very truly yours,



Michael J. Shortley, III

cc: Ms. Kathryn O'Brien  
International Bureau

International Transcription Service

No. of Copies rec'd  
List ABCDE

029

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

RECEIVED  
FEB 17 1997  
FCC MAIL ROOM

In the Matter of )  
 ) IB Docket No. 96-261  
International Settlement Rates )

COMMENTS OF  
FRONTIER CORPORATION

Frontier Corporation ("Frontier") submits these comments in response to the Commission's notice initiating this proceeding.<sup>1</sup> Frontier agrees with the Commission on the need to reform the existing international settlements system. Settlement rates today are far above economic cost. The existence of above-cost accounting rates has artificially depressed demand for international services and has introduced other economic distortions and inefficiencies in the provision of international services. In particular, as the Commission recognizes,<sup>2</sup> a number of service development (e.g., call-back and call re-routing) appear to have developed principally as means to avoid the international settlement process. Thus, Frontier agrees with the Commission's determination to take action to reduce international settlement rates to more cost-based levels.

In acting on the proposals contained in the Notice, the Commission should: (1) develop benchmark settlement ranges along the lines proposed in

---

<sup>1</sup> *International Settlement Rates*, IB Dkt. 96-261, Notice of Proposed Rulemaking, FCC 96-484 (Dec. 19, 1996) ("Notice").

<sup>2</sup> *Id.*, ¶¶ 11-12.

the Notice; (2) apply the benchmark ranges to groups of countries based upon levels of economic development and apply appropriate transition periods to each group; and (3) ensure that effective mechanisms are in place to enforce the proposed benchmarks.

*First*, the Commission's proposal to establish the upper end of the benchmark range on the basis of prices for the identified international network elements<sup>3</sup> is appropriate. The data on which the Commission relies represents rates at which the individual component elements would be available if they are offered on an unbundled basis.<sup>4</sup> As such, the Commission is correct in inferring that a bundled rate in excess of aggregate prices for the individual elements is excessive. Indeed, as the Commission notes, the benchmark upper end is still substantially in excess of incremental cost.<sup>5</sup>

A lower end of the benchmark range based upon total service long run incremental cost is also appropriate. As the Commission has recently concluded in other contexts, pricing based upon incremental costs is economically efficient

---

<sup>3</sup> *Id.*, ¶¶ 35-38.

<sup>4</sup> *Id.*, ¶ 40.

<sup>5</sup> *Id.*, ¶ 42.

and, in a competitive environment, rates would tend to move toward incremental costs.<sup>6</sup>

As such, the methodologies for computing the upper and lower ends of the benchmark ranges are conceptually sound. Therefore, the benchmark ranges represent appropriate targets for the negotiation of international settlements rates.

Second, the Commission should establish benchmark ranges by categories of countries depending upon level of economic development. The alternative -- establishing benchmarks on a country-specific basis<sup>7</sup> -- would appear to be administratively cumbersome. This approach could also create certain anomalies that may make administration of the program and, in particular, gaining its acceptance by foreign administrations difficult. It could result, for example, in countries that are similarly situated having significantly different benchmark ranges.<sup>8</sup> Thus, categorizing countries by level of economic development would mitigate this concern.

---

<sup>6</sup> See, e.g., *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Dkt 96-98, First Report and Order, FCC 96-325 (Aug. 8, 1996), *appeal pending sub nom. Iowa Utilities Board v. FCC*, No. 96-3321 (8th Cir.); *Access Charge Reform*, CC Dkt. 96-262, Notice of Proposed Rulemaking, FCC 96-448 (Dec. 24, 1996).

The Commission states that it lacks specific data to determine precisely the incremental costs of foreign terminations. Notice, ¶¶ 50-51. As a surrogate, the Commission is relying upon certain data presented by AT&T regarding its network costs. Frontier has no objection to the Commission's use of that data for purposes of establishing the lower end of its benchmark range.

<sup>7</sup> *Id.*, ¶¶ 54-55.

<sup>8</sup> *Id.*, ¶ 55.

In addition, differentiating countries by level of economic development for purposes of establishing time periods for transitioning to the benchmark ranges is appropriate. Permitting low income countries to transition to the benchmarks would take into account the circumstances that face developing nations.<sup>9</sup>

Finally, as the Commission recognizes, it must be prepared to take steps to enforce its benchmark policies with respect to foreign carriers that are reluctant to engage in meaningful progress toward negotiating acceptable settlements rates. The Commission would -- and should -- utilize each of the options it proposes<sup>10</sup> as individual circumstances dictate. Frontier notes that the Commission has, indeed, taken steps to enforcement of the non-discrimination requirement of its international settlements policy.<sup>11</sup> A similar commitment to strong enforcement action, where appropriate, is equally necessary in this context.

---

<sup>9</sup> Nonetheless, the Commission is correct that the use of high international settlements rates to fund infrastructure development in developing nations is not sustainable in the long term. *Id.*, ¶¶ 59-60. Thus, while the transition period for developing countries should be longer for lesser developed countries than for developed nations, the transition period should not be indefinite. The four or five year period proposed by the Commission is reasonable.

In addition, the Commission's proposals to apply its benchmark policies flexibly with respect to countries committed to competitive reform (*id.*, ¶¶ 69-74) and to utilize its benchmark policies to address anti-competitive behavior (*id.*, ¶¶ 75-86) are also correct.

<sup>10</sup> *Id.*, ¶ 89.

<sup>11</sup> See e.g., *AT&T Corp., Proposed Extension of Accounting Rate Treatment for Switched Voice Services with Argentina*, DA 96-378, Order (March 18, 1996).

For the foregoing reasons, the Commission should act upon the proposals contained in the Notice in the manner suggested herein.

Respectfully submitted,

  
\_\_\_\_\_  
Michael J. Shortley, III

Attorney for Frontier Corporation

180 South Clinton Avenue  
Rochester, New York 14646  
(716) 777-1028

February 6, 1997